

# Sole Proprietorship Returns, 1985

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For Tax Year 1985 and for the third consecutive year, nonfarm proprietors reported an all-time high level of annual profits. As can be seen from Figure A, this continued the upward trend in profits that began with 1983 [1,2].

**Figure A.—Nonfarm Sole Proprietorship Profits, 1980-1985**

[billions of dollars]

Tax Year	Net income less deficit
1980	\$54.9
1981	53.1
1982	50.6
1983	60.4
1984	70.8
1985	78.8

The increase in reported profits for 1985 was shared by proprietorships in all non-manufacturing industrial divisions except transportation and utilities [3]. Several divisions realized increases in profits that were more than 10 percent higher than the previous year, as shown in Figure B below [4].

**Figure B.—Profits by Industrial Division, 1984 and 1985**

[billions of dollars]

Industrial Division	1984	1985
Mining	\$ 0.3	\$ 0.5
Construction	10.1	11.1
Manufacturing	1.4	1.3
Transportation and utilities	3.3	2.4
Trade	7.7	8.3
Finance Insurance and real estate	9.5	9.8
Services	36.8	43.1

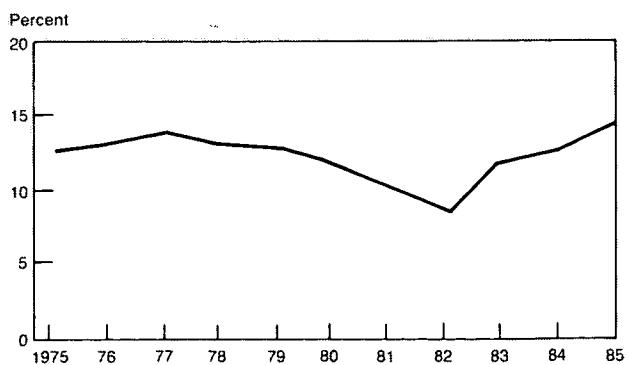
The 27-percent decrease in profits for the transportation and utilities division resulted from a general decline in reported profits for all industries in the division. Most notably, proprietorships engaged in transportation services suffered a 68-percent drop in profits. The manufacturing division suffered a less severe, 7-percent, drop overall. Although about half of the manufacturing industries reported increased profits for 1985, these were overshadowed by the losses reported by the remaining industries in the division.

The number of individual income tax returns reporting nonfarm sole proprietorship activity increased by 5.9 per-

cent, from 11.3 million for 1984 to 12.0 million for 1985. There was an increased number of proprietorships in all but two industrial divisions—transportation and utilities, down 5 percent; and trade, down 4 percent. The greatest increases in number of returns filed were in the construction and service divisions and more than compensated for these declines. The increases for the construction and services divisions represent a continuation of an upward trend in the number of proprietorships engaged in these activities. This trend may have resulted, in part, from the effect of favorable interest rates in 1984 and 1985 as well as the continued shift to an economy in which service industries play an increasingly important role.

Not only profits, but the total reported receipts on which they were based were up for Tax Year 1985. Reported receipts increased 4.7 percent, from \$516 billion for 1984 to \$540 billion for 1985. This increase represented a gain in real (1982) dollar sales of \$22 billion [5]. The percentage ratio of profits to receipts also continued to rise, as Figure C shows. Other detailed industry statistics and income statement items on nonfarm sole proprietorships are presented in Tables 1 and 2.

**Figure C**  
**Percentage Ratio of Profits to Receipts, 1975-1985**



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### SUMMARY

In summary, the continuing improvement in the economic climate in 1985 produced good results for most nonfarm sole proprietors. Overall, compared with 1984, larger amounts of receipts and profits were reported by a larger number of proprietorships.

### DATA SOURCES AND LIMITATIONS

A general description of sampling procedures and data limitations applicable to the Statistics of Income (SOI) tabulations is contained in the Appendix to this issue. Specific information applicable to sole proprietorship data for 1985 is presented below.

#### Sample Selection Criteria

The 1985 sole proprietorship estimates are based on data from a sample of individual income tax returns, Forms 1040, processed by the Internal Revenue Service (IRS) during 1986. The sample was stratified based on presence or absence of Schedule C, Profit or Loss from Business or Profession; Schedule F, Farm Income and Expenses; the larger of total income or total loss; and size of business plus farm receipts. The returns were selected at rates that ranged from 0.02 percent to 100 percent. For 1985, 38,154 non-farm sole proprietorship returns were included in the sample; these were drawn from a population of 12,268,399 returns. By comparison, 34,855 out of 11,707,742 returns were selected for 1984.

#### Limitations

Because the data presented in this article are estimates based on a sample of returns, they are subject to sampling, as well as nonsampling, error. To properly use the statistical data provided, the magnitude of the potential sampling error must be known.

Approximate coefficients of variation (CV's) for frequency estimates are presented in Figure D. These CV's can be used to obtain measures of the potential sampling error. They are shown here only as a general indication of data reliability. For numbers other than those shown, the corresponding CV's can be estimated by interpolation. The reliability of estimates based on samples and the use of CV's for evaluating the precision of sample estimates are discussed in the Appendix.

**Figure D.—Coefficients of Variation for Frequency Estimates**

Estimated number of returns	Approximate coefficient of variation
6,665,000 .....	.015
3,749,000 .....	.020
599,900 .....	.050
150,000 .....	.100
37,500 .....	.200
16,700 .....	.300
12,200 .....	.350
6,000 .....	.500

### NOTES AND REFERENCES

- [1] Unless otherwise noted, all money amounts in this article are as reported and are not adjusted for inflation.
- [2] Profits are represented by net income less deficit, before Federal income tax, and were calculated as the sum of net income (for businesses reporting a profit) offset by the net deficit (for businesses reporting a loss) for all businesses within a particular industrial classification. Net income or net loss for each business was calculated as business receipts minus cost of sales and operations and business deductions.

Changes in both the tax laws and in the procedures for processing sole proprietorship returns affect the comparability of data for different tax years. A tax law change of particular relevance to sole proprietors for 1985 affected the rules governing the calculation of the depreciation deduction. Chief among these rule changes was the extension of the recovery period for real property placed into service after March 15, 1984. For such property, the period under the accelerated cost recovery system (ACRS) was extended from 15 years to 18 years. Other changes included a reduction in the maximum amount deductible for depreciation of passenger automobiles and a limitation on the amount which could be expensed currently.

Tax law changes for other recent years and changes in processing the returns that have affected the year-to-year comparability of data are described in detail in Wilson, Robert A., "Unincorporated Business Activity for 1981," *Statistics of Income Bulletin*, Spring 1983; in Wolfe, Raymond M., "Sole Proprietorship Returns, 1982," *Statistics of Income Bulletin*, Summer 1983; and in the annual editions of the *Statistics of Income—Sole Proprietorship Returns* (for years prior to 1982); and *Statistics of Income—Individual Income Tax Returns* series of statistical reports.

For a further discussion of unincorporated business activity, see "Partnership Returns, 1985," in this issue.

- [3] For purposes of this article, the terms *sole proprietor* and *sole proprietorship* are used interchangeably. In fact, there are always more sole proprietorships than sole proprietors because some individuals own more than one business. Over the past two decades, the ratio of proprietorships to proprietors has remained constant at approximately 1.1 to 1. For a more detailed explanation of the relationship between proprietors and proprietorships, see *Statistics of Income—1981, Sole Proprietorship Returns*.
- [4] Data for proprietorships providing agricultural ser-

vices (including forestry and fishing) shown in Tables 1 and 2 are omitted from Figure B because of their close relationship to farming industry data, which are not tabulated on an annual basis. For Tax Year 1982 (the latest year for which detailed farm industry data are available), the number of farm returns was 2,691,722, while the number of returns reporting agricultural service businesses was 211,282. Reported receipts were \$99.3 billion and \$7.3 billion, respectively.

[5] Constant dollars were based on the Gross National Product implicit price deflator (1982 = 100; 1985 = 111) calculated by the U.S. Department of Commerce, Bureau of Economic Analysis. For a discussion of this deflator, see U. S. Department of Commerce, *Survey of Current Business*, U.S. Government Printing Office, April 1987, Volume 66, Number 4.









**Table 1.—Nonfarm Sole Proprietorship Businesses: Business Receipts, Selected Deductions, Payroll, and Net Income, by Industry, 1985—Continued**

[All figures are estimates based on samples—money amounts are in thousands of dollars]

Industry	Businesses with and without net income—continued							Businesses with net income—continued						
	Number of returns	Business receipts	Depreciation	Rent paid deduction	Interest paid deduction <sup>1</sup>	Payroll <sup>2</sup>	Net income less deficit	Number of returns	Business receipts	Depreciation	Rent paid deduction	Interest paid deduction <sup>1</sup>	Payroll <sup>2</sup>	Net income
<b>Services—Continued</b>														
Medical and health services	540,331	36,066,332	1,554,677	1,722,174	749,385	4,847,472	14,840,944	483,304	34,292,692	1,374,073	1,600,800	599,998	4,409,812	15,197,110
Offices of physicians	184,754	15,862,499	641,454	666,921	230,501	1,552,601	8,193,618	164,212	15,278,200	584,522	623,372	201,492	1,456,765	8,340,994
Offices of dentists <sup>3</sup>	83,657	9,683,746	459,198	470,420	241,731	1,826,226	3,261,233	77,444	9,370,831	401,834	442,373	169,410	1,764,347	3,308,586
Offices of osteopathic physicians	4,615	378,867	11,700	17,337	3,848	78,327	154,175	2,066	302,182	9,897	10,663	1,543	37,495	171,877
Offices of chiropractors	21,133	1,945,455	104,676	133,368	52,164	235,753	746,498	20,192	1,922,703	101,441	129,881	49,548	232,793	749,394
Offices of optometrists	16,288	1,374,453	49,562	66,198	53,245	189,506	243,358	12,640	1,216,895	36,054	48,264	50,736	169,302	284,309
Registered and practical nurses	51,686	433,734	7,084	*3,706	*4,776	*1,462	335,994	51,238	433,561	7,084	*3,696	*4,776	*1,462	336,126
Nursing and personal care facilities	37,672	2,164,199	101,835	95,311	91,489	565,809	194,290	31,517	1,781,781	73,671	90,666	62,381	369,830	253,701
Hospitals	3	*9,964	*161	—	*4	*4,207	*1,962	3	*9,964	*161	—	*4	*4,207	*1,962
Medical laboratories	3,759	184,253	12,732	*5,093	*2,601	*6,606	14,494	1,657	181,970	*11,917	*4,628	*2,556	*6,552	17,995
Dental laboratories	17,195	680,335	34,512	*37,891	*30,862	*92,433	216,727	14,809	659,362	*29,725	*37,891	*23,746	*92,433	222,140
Other medical and health services	119,569	3,348,827	131,763	225,928	38,163	294,543	1,478,594	107,526	3,135,244	117,767	209,344	33,806	274,627	1,510,026
Legal services	233,187	13,534,618	617,405	747,011	230,501	1,504,948	5,827,321	197,727	13,248,676	548,814	702,025	204,080	1,482,788	6,019,625
Educational services	174,011	1,320,084	100,969	57,403	32,231	101,030	342,770	124,555	998,621	44,468	37,463	5,538	33,926	463,156
Engineering and architectural services	143,117	3,803,349	204,728	128,467	59,644	433,613	1,447,388	113,805	3,437,413	136,322	93,348	50,513	367,538	1,585,862
Accounting, auditing, and bookkeeping services	223,759	4,186,364	317,498	255,060	164,156	540,243	1,473,554	189,026	3,743,215	235,961	218,661	99,366	483,511	1,609,648
Certified public accountants	15,232	690,102	35,309	50,396	21,026	147,737	251,319	14,030	690,059	35,301	50,387	21,023	147,730	252,063
Other accounting, auditing, and bookkeeping services	208,527	3,496,261	282,190	204,664	143,130	392,505	1,222,236	174,996	3,053,156	200,660	168,274	78,342	335,781	1,357,585
Other services	288,533	6,763,786	327,864	190,403	95,798	457,790	1,579,936	221,841	6,062,389	247,275	153,033	60,710	379,279	1,874,871
Nature of business not allocable	272,116	7,836,861	301,587	296,921	85,647	534,597	1,403,836	194,750	6,203,839	200,096	192,999	42,241	340,357	1,810,401

(1) Interest paid is the sum of mortgage interest and other interest. These items are shown separately in Table 2.

(2) Payroll is the sum of net wages paid plus cost of labor. These items are shown separately in Table 2.

(3) Less than \$500.

\* This estimate should be used with caution because of the small number of sample returns on which it was based.

\*\* The estimate for this cell is not shown to avoid disclosure of information for specific taxpayers. However, the data are included in the appropriate totals.

NOTE: Detail may not add to total because of rounding.















